Analysis of State Undistributed Child Support Collections

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Office of Child Support Enforcement

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Executive Summary

Purpose

The purpose of this project is to analyze federal and state data and practices regarding Undistributed Collections (UDC) in an effort to assess the primary causes of UDC and to identify processes developed by the states that have reduced the volume of UDC for the states' child support programs.

Background

In federal fiscal year 1999, over $500 million in child support payments were undistributed. This is obviously problematic for a program whose mission is to collect *and distribute* child support to families.

While a federal/state workgroup has spent time looking at possible causes of UDC, there has been very little formal analysis done to determine the extent of the problem and whether it is a growing or diminishing problem for child support programs around the country. Given the implementation of new State Disbursement Units (SDU), new statewide child support systems, growing caseloads, and improvements in technology, the federal Office of Child Support Enforcement (OCSE) recognized that a systematic analysis of the UDC problem was warranted.

Methodology

Information for this report comes primarily from OCSE-34A report data and from information-gathering discussions with 25 states. After gathering the data and completing discussions with the states, we looked for trends in UDC growth, potential causes of UDC, and best practices currently existing in the states that could be transferable to other jurisdictions.

Findings

1. Undistributed Collections are increasing over time.

Based on data obtained from OCSE-34A reports, we can say that UDC balances are increasing over time. Regardless of the definitions used by the states, reported UDC amounts increased in 39 states from FFY00 to FFY01.

2. The definition of Undistributed Collections contained in the instructions to the OCSE-34A is not being uniformly applied by the states.

Our interviews with the states revealed that, in many instances, states are not including some items in their calculation of UDC. For example, in some states, collections that have been distributed to a case, but not yet disbursed, are not counted in the states' calculation of UDC.

3. Due to varying UDC definitions, data from OCSE-34A reports cannot be relied upon to obtain an accurate picture of the magnitude of Undistributed Collections nationwide.

While we can say with some certainty that UDC balances are increasing, it is impossible to know exactly how much they are increasing, due to the differing definitions employed by the states. To make meaningful comparisons between the states regarding their success in reducing UDC, the states need to be reporting the same items nationwide.

4. The implementation of State Disbursement Units may have initially contributed to a rise in undistributed payments, but most of these issues were resolved after the initial start-up period was completed.

Fifty-eight percent of states that implemented SDUs since 1997 showed an increase in their UDC rates in the three quarters following implementation. Our interviews with the states indicate, however, that any problems that may have arisen during SDU implementation have been resolved by now.

5. Systems development projects associated with Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) requirements have made it difficult for states to find resources to address UDC issues.

The systems development projects required by PRWORA and the deadlines associated with these projects have made it difficult for states to provide the resources necessary to reconcile and/or reduce increasing UDC balances. Personnel and systems programming resources are necessary to do the difficult work of cleaning up older UDC records, and those resources have been limited or unavailable due to the more pressing requirements of PRWORA.

6. Strategies for reducing the incidence of unidentified payments are of particular interest to large states.

The Big 8 + 1 states have expressed an interest in receiving technical assistance to assist them in working with unidentified interstate payments. These types of payments include both payments from federal employers and payments from other states that are not accompanied by sufficient identifying information.

7. States that do not have a meaningful way of categorizing UDC payments may find it difficult to manage and/or reduce their existing UDC balances.

The states have a great variety of ways to categorize UDC balances. There doesn't appear to be a model categorization method that exists, and the number of categories chosen by the state does not correlate with higher or lower UDC rates. Based on our interviews with the states, the best strategy for reducing UDC includes a thoughtful categorization scheme coupled with an ongoing management focus, emphasizing automated remedies, whenever possible.

Recommendations

Defining, Reporting, and Categorizing Undistributed Collections

OCSE should:

✓ Clearly define what should be contained in the states' Gross UDC figure and provide specific examples of items that should and should not be included.

- ✓ Consider removing the requirement that states include IRS offset payments on hold in their calculation of UDC for the OCSE-34A report or, as an alternative, allow states to report these amounts separately.
- ✓ Provide states with a small number of simple, manageable UDC categories within which to organize and report their gross UDC balances.
- ✓ Consider removing the requirement that states report any amounts being held for future support.

Management-Related Recommendations

States should:

- ✓ Focus top management attention on the assessment, management, and monitoring of UDC-related issues.
- ✓ Work in partnership with federal regional staff to set UDC goals and monitor progress made in UDC reduction and management.

Systems-Related Recommendations

States should:

- ✓ Utilize imaging technology for payment processing and work towards a process in which payments are processed from the image, rather than from the payment document itself.
- ✓ Program the statewide system to begin auto-locate activity for a custodial parent (CP) whenever the address for the CP is coded “old” or “invalid” *and* when the system shows a payment on hold for the CP.
- ✓ Utilize scannable coupons and/or billing statements with payors and employers remitting payments.
- ✓ Market and utilize Electronic Fund Transfer (EFT)/Electronic Data Interchange (EDI) and direct deposit whenever possible.
- ✓ Implement a categorization scheme in the statewide system, if not already in place.
- ✓ Automate the release of UDC payments wherever possible.

Staffing-Related Recommendations

States should:

- ✓ Devote staff to reducing and preventing UDC accumulation.

Best Practice Recommendations

Six different best practices currently employed by five separate states are detailed in our recommendations for best practices. The best practices feature management reports, automated systems features, process-oriented solutions, and legislative remedies.

Introduction

Background

In federal fiscal year 1999, over $500 million in child support payments were undistributed. This is obviously problematic for a program whose mission is to collect *and distribute* child support to families.

The problems are varied. First, for families owed support, the lack of funds causes economic, and sometimes emotional, hardship for children. For obligors, there is often additional stress added to the relationship with the children's custodial parent (CP) when the payments are not received. For the public, confidence in the ability of the program to perform is eroded when dollars are reported as undistributed. For managers and workers in IV-D programs nationwide, the inability to identify and distribute payments correctly affects the accounting and customer service functions of the programs' operations, and may preclude the agency from taking appropriate or timely enforcement actions in cases.

While a federal/state workgroup has spent time looking at possible causes of undistributed collections (UDC), there has been very little formal analysis done to determine the extent of the problem and whether it is a growing or diminishing problem for child support programs around the country. Given the implementation of new State Disbursement Units (SDU), new statewide child support systems, growing caseloads, and improvements in technology, the federal Office of Child Support Enforcement (OCSE) recognized that it is an ideal time to undertake a systematic analysis of the UDC problem. OCSE was also interested in identifying what has been working for states as they attempt to decrease the number of payments that are undistributed.

In October 2000, the Center for the Support of Families (the Center) was awarded a contract with OCSE for Task Order 20: Analysis of State Undistributed Child Support Collections. For the work required under Task Order 20, the Center has analyzed federal and state data and practices regarding UDC in an effort to assess the primary causes of UDC, and to identify processes developed by the states that have reduced the volume of UDC for the states' child support programs.

This research paper reports on the results of the Center's analysis. It describes the extent and causes of the UDC problem and highlights some best practices currently undertaken by a number of states that have proven to be successful in reducing and/or maintaining low UDC balances.

Methodology

First, we analyzed the following data sources:

Data Source	Description
I	OCSE-34A reports for all states and territories for 4th quarters FFY99 and FFY00, and 1st and 2nd quarters of FFY01.
II	OCSE-34A reports for all states and territories with SDUs implemented in 1997 or later for the 3 quarters immediately preceding, and immediately following, SDU implementation.
III	Survey instrument and data obtained by Office of Inspector General (OIG) staff who conducted the SDU studies, reported in August 2000 (OEI 06-00-00040 and 06-00-00041).
IV	UDC-related data obtained on the Big 8+1 states by Policy Studies, Inc. (PSI) under Task Order 19 (PSI Report on Subtask 2.2 of Task Order 19: *Summary of Major Concerns, Basic Needs, and Best Practices of the Big 8+1 States Related to Reducing Undistributed Collections*).
V	Third Judicial Circuit Court of Michigan's May 2001 Final Project Report and Findings in its Analysis of Undistributed Child Support Collections.

We also followed the progress of the federal/state UDC workgroup by participating in workgroup conference calls in December 2000, and in January, February, and March 2001. Data produced by workgroup members was included in our analysis.

We also conducted information-gathering discussions with a number of states to assess:

- What types of data the states were capturing when preparing their OCSE-34A quarterly reports;
- How states were categorizing their UDC balances;

- What types of payment processing techniques were being utilized that may be helping/hindering the goal of reducing UDC balances;
- What types of systems-related remedies had the states implemented to help reduce UDC balances; and
- What types of policies and procedures were in place to enable the reduction of UDC.

We conducted these discussions primarily by telephone, but also by electronic mail and in-person meetings. The following states provided information for the purposes of these discussions:

Region	**States**
I	Connecticut, Maine, Massachusetts
II	New Jersey and New York (both via PSI)
III	Delaware and Virginia Pennsylvania (via PSI)
IV	Georgia and Tennessee Florida (via PSI)
V	Indiana, Minnesota, Ohio[1] and Wisconsin Illinois, Michigan and Ohio (via PSI)
VI	New Mexico, Louisiana and Oklahoma Texas (via PSI)
VII	Missouri and Kansas
VIII	Colorado, Utah and Wyoming
IX	Arizona and Nevada California (via PSI)
X	Alaska, Idaho, Oregon and Washington

[1] Due to the information obtained by PSI regarding Ohio's efforts to reduce UDC, the Center elected to do additional, intensive follow-up with this Big 8+1 state.

Data Analysis

OCSE-34A Data Analysis

In doing our analysis, our initial inquiry was as follows:

1. Is there an increasing trend in UDC amongst the states, and, if so,
2. To what extent are UDC increasing, and why?

To get an initial "snapshot" of the current state of UDC at the time we began our data analysis, we first analyzed the data from OCSE-34A reports[2] submitted by all of the states and territories for FFY 99 and 00.

We began by calculating a "UDC rate" for each state and territory for each quarter; this was done by dividing the amount reported in line 9 of the OCSE-34A report (Gross Undistributed Collections) by line 6 (Collections Available for Distribution)[3]. See *UDC Rates: Comparing 4th Qtr FFY99 to 4th Qtr FFY00* in Appendix B: Data Charts (page B-12) for the data compiled for these quarters.

We can summarize the data for the 4th quarters of FFY 99 and 00 as follows:

Measure	4th Qtr/FFY99	4th Qtr/FFY00
Total collections available for distribution	$4,619,879,793	$5,047,492,846
Total gross undistributed collections	$ 567,834,641	$ 647,865,837
National UDC Rate	12.29%	12.84%
Median UDC Rate	8.47%	9.69%
Highest UDC Rate	54.93%	63.34%
Lowest UDC Rate	0.11%	0.36%

[2] See Appendix A: OCSE-34A Report and Instructions (page A-1) for a copy of the OCSE-34A report and its instructions.

[3] Initially we used line 9b, Net Undistributed Collections, but later found that there were sometimes inaccurate data contained on line 9a (Undistributable Collections) that made our data for line 9b unreliable. Furthermore, states have different means of turning collections over to their unclaimed property divisions (the amounts reported on line 9a). Thus, it made it difficult to make comparisons between the states.

As demonstrated by the numbers shown above, the general trend from FFY99 to FFY00 was an increase in UDC, both in total and as a percentage of collections available for distribution. Based on these figures, it can be assumed that a problem exists in many of the states' child support programs with respect to UDC.

Next in our analysis, we asked: *What might be causing the increase in undistributed collections?* One potential cause we decided to explore was the recent implementation by many states of SDUs as mandated by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).[4]

Many states that have recently implemented SDUs have had to transition from local, or county-based, payment processing to a centralized method of payment processing. While phasing in these SDUs, it is possible that many states experienced a disruption in the speed and accuracy with which payments were processed. To test this theory, we looked at the UDC rates for the three fiscal year quarters immediately preceding SDU implementation and the three fiscal year quarters immediately following SDU implementation. We looked only at those states where SDUs were implemented since 1997, because states implementing their SDUs earlier were assumed to have resolved any possible UDC issues stemming from SDU start-up.

We looked at the average UDC Rates (UDCR) for the following states[5]:

State	SDU Implementation	Avg. UDCR-Before	Avg. UDCR-After
Nebraska	December 2000	8.81%	10.76%
Ohio	September 2000	11.44%	3.56%
Alabama	September 2000	5.28%	5.91%
Kansas	September 2000	4.75%	7.20%
Nevada	September 2000	5.33%	7.34%
Maryland	March 2000	7.89%	11.44%

[4] 42 U.S.C. 654B(a)
[5] See Appendix B-2: State UDC Rates Pre- and Post-SDU (page B-15), for detailed data compiled for these states.

State	SDU Implementation	Avg. UDCR-Before	Avg. UDCR-After
Louisiana	February 2000	0.84%	1.44%
Florida	December 1999	23.21%	22.05%
Missouri	December 1999	15.35%	20.14%
Illinois	October 1999	1.63%	0.56%
Iowa	October 1999	2.48%	5.27%
New Jersey	October 1999	2.15%	3.40%
Tennessee	October 1999	53.95%	53.26%
North Carolina	October 1999	12.24%	11.99%
Indiana	October 1999	14.84%	14.81%
Pennsylvania	October 1999	5.61%	6.45%
Wisconsin	October 1999	5.43%	3.92%
Guam	September 1999	45.90%	56.91%
Wyoming	August 1999	7.26%	7.39%
Oklahoma	August 1999	5.74%	5.39%
Georgia	July 1999	7.77%	3.00%
North Dakota	July 1999	11.45%	13.73%
Arizona	December 1998	7.85%	13.73%
Mississippi	December 1998	15.46%	25.23%
Minnesota	November 1998	2.53%	0.38%
South Dakota	October 1998	0.00%	7.47%
Idaho	October 1998	2.21%	1.57%
Hawaii	July 1998	15.34%	9.30%
Wash., D.C.	May 1998	2.59%	12.19%

State	SDU Implementation	Avg. UDCR-Before	Avg. UDCR-After
Alaska	March 1998	7.52%	17.81%
Rhode Island	October 1997	5.42%	4.01%

In 18 of the 31 states listed above (or 58%), UDC rates were higher in the three quarters immediately following the implementation of an SDU than they were in the three quarters immediately preceding implementation of the SDU. However, it is unknown whether or not the implementation of the SDU was the primary cause for the increase in these states' UDC rate.

To determine whether or not the function of time subsequently reduced these states' UDC rates, we compared the UDC rate of each of the above states in the quarter immediately preceding SDU implementation with the UDC rate for the most recently reported quarter (2nd quarter, FFY01).

State	Quarter Prior To SDU	2nd Quarter FFY01
Nebraska	9.73%	12.18%
Ohio	5.22%	2.95%
Alabama	6.54%	5.70%
Kansas	9.58%	6.27%
Nevada	7.38%	9.12%
Maryland	6.82%	25.01%
Louisiana	0.89%	2.15%
Florida	21.44%	19.66%
Missouri	3.61%	20.97%
Illinois	0.31%	13.37%
Iowa	1.94%	4.93%
New Jersey	2.43%	4.79%

State	Quarter Prior To SDU	2nd Quarter FFY01
Tennessee	54.93%	52.27%
North Carolina	10.43%	13.28%
Indiana	19.69%	17.97%
Pennsylvania	6.66%	6.46%
Wisconsin	5.27%	4.09%
Guam	46.82%	65.01%
Wyoming	12.16%	13.67%
Oklahoma	8.62%	1.91%
Georgia	5.92%	7.69%
North Dakota	8.93%	9.91%
Arizona	7.30%	9.93%
Mississippi	28.91%	13.97%
Minnesota	2.86%	5.00%
South Dakota	0.00%	10.99%
Idaho	1.85%	0.99%
Hawaii	13.40%	15.96%
Wash., D.C.	2.31%	15.93%
Alaska	8.28%	14.16%
Rhode Island	5.14%	17.89%

Comparing these two quarters, 20 of the 31 states (or 65%) reported a higher UDC rate in the most recently reported quarter than in the quarter immediately preceding SDU implementation. For 22 of the 31 states (or 71%), the time period between these two quarters spanned 18 months or more. Based on this information, it is assumed that UDC rates are not resolving themselves as a function of time, and that other issues, besides SDU implementation, are contributing to rising UDC rates. To get a sense of what other issues might be contributing to the problem, and to determine what was "behind the numbers," we found it necessary to move from the OCSE-34A data to information obtained through informational interviews with the states.

Informational Interviews with the States

We conducted telephone interviews with 25 states[6] (including the State of Ohio) from December 2000 through August 2001.[7] We also received some general UDC information for the Big 8 +1 states through the results of Task Order 19's *Discussion Topic Organizer* instrument.[8]

The primary objective during the informational interviews was to identify any best practices currently existing in the states that could help other states in reducing the incidence of UDC. Secondly, we sought to obtain information about how the states were compiling data for the OCSE-34A, and how states were defining UDC for reporting purposes. Third, we hoped to learn what factors the states believe are contributing to rising UDC balances. For the purposes of this section, we will only discuss the information we obtained in pursuing our second and third objectives. We will address what we learned about best practices later in this paper.

In assessing how states were compiling data and defining UDC for the purposes of the OCSE-34A, we quickly realized that there exists a plethora of ways in which states are defining what is "undistributed" in their programs. For example, a number of states have excluded from their definition of UDC any payments that have been distributed to a case, but have not yet been disbursed. This includes IRS offset payments being held on joint returns, payments returned to the program due to invalid addresses, and, in some states, any payment being held for any reason (but applied and credited to a specific case).

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[6] We also attempted to contact Guam, Hawaii, and the Virgin Islands, but were unsuccessful in setting up an interview with these states/territories.
[7] See Appendix C: State Discussion Questions (page C-1) for a list of the discussion questions used during these informational interviews.
[8] See Appendix D: Task Order 19 Discussion Topic Organizer (page D-1) for a copy of the Discussion Topic Organizer used by PSI in Task Order 19.

While many states are excluding certain payments from their UDC balance, others are including payments in their definition of UDC that arguably could be excluded. For example, one state has been including all payments that have not yet cleared the bank, even if those payments had just been disbursed. The confusion is understandable. Instructions for completing the OCSE-34A contain information that could be misconstrued:

> "A collection is considered distributed on the date the funds are forwarded via check, electronic transfer or other means to the intended final recipient …" and the very next sentence reads "any funds returned as undeliverable or *any check remaining uncashed* and considered 'stale' must be redesignated as "undistributed" (and the amount of collections designated as "distributed" reduced accordingly) until another distribution can be attempted." See OCSE publication *Instructions for Completion of Form OCSE-34A* (page A-1) emphasis added.

It is important to note, however, the use of the conjunctive "and" contained in the second sentence of the paragraph referenced above. It is our interpretation, and apparently the interpretation of most of the other states, that a check must be uncashed *and considered stale* before a collection must be redesignated as undistributed. When a check is considered "stale" varies from state to state, thus this redesignation would occur at different intervals, depending on the state.

This discrepancy in the way states define UDC is cause for concern. Of the 25 states we talked to, 10 states volunteered that they are not reporting as UDC one or more of the following types of collections: stale-dated checks, undeliverable checks, checks distributed-but-not-disbursed, and checks held at the CP level. This variance in what is reported as UDC indicates that the actual amount of undistributed collections (as defined by the OCSE-34A) nationwide may be significantly higher than we think.

In addition to varying definitions of UDC, we also discovered that the differences in statewide automated systems cause some states to report large categories of collections as UDC, while other states do not. For example, many states have indicated that a large portion of their reported UDC balance is comprised of future support that, but for the fact that the support has not yet come due, would otherwise be disbursed. However, this is not the case in every state. Depending on how a state's child support system is programmed, future support may be held, or it may be immediately disbursed, crediting the collection to future obligations.

This variance in state systems, and in UDC definitions, leads to another conclusion: without a uniform reporting of UDC by the states, it is difficult to make reliable comparisons between the states with respect to their success in reducing UDC. Therefore, the data gathered from information reported on the OCSE-34A cannot be considered a reliable "barometer" of the current status of UDC in the states.

While it may be difficult to make quantitative assessments of, and comparisons between, the states, it is possible to draw upon our qualitative interviews with the states to discuss potential causes of rising UDC rates.

Many of the states we interviewed reiterated one common theme that may be contributing to rising UDC balances in a majority of the states: the implementation of the IV-D requirements in PRWORA. The most frequently cited reason for growing, or not receding, UDC balances was the competing priorities created by the new IV-D program requirements contained under PRWORA. Many states explained that much of their staff efforts had to be funneled into systems certification, SDU implementation, financial institution data match implementation, and other systems-related development projects. These efforts took precedence over resolving any UDC issues and, for some states, will continue to do so until systems certification is achieved.

A lack of personnel to work on UDC issues was not the only PRWORA systems-related cause of UDC. As statewide systems have been brought up, many states have had to convert from a series of county-based systems to one, newer system. In these instances, the states often discovered data integrity issues that have inflated the amount of UDC reported by the system. To resolve these types of issues will most likely take a dedication of staff resources that many states cannot afford until other PRWORA priorities are fulfilled.

Other Data Sources

In addition to looking to the qualitative interviews to gain insight into the possible causes of UDC, we also looked into a variety of other resources. First, we looked at the information contained in the Office of Inspector General (OIG) reports entitled *State Disbursement Units: State Implementation Progress*, OEI 06-00-00040 (August, 2000) and *State Disbursement Units: Sharing the Experience of Six States,* OEI 06-00-00041 (August, 2000).

The first OIG report (OEI-06-00-00040) contained one finding regarding payment processing problems associated with the implementation of the states' SDUs. The states surveyed for the report indicated that while "most SDUs encountered problems when they first centralized payment processing … the severity of many of these problems have diminished subsequent to startup periods."

The finding continues with a description of some of the problems the states encountered:

> "[M]any payers … failed to include information necessary for identifying the cases to which payments should be applied. In some States, when payments contained insufficient information or were mailed to the wrong location, disbursements were significantly delayed."
>
> "Managers in some States report that [efforts to convert local case information to central databases] were often problematic, resulting in payments being received by the SDU for which it had no associated case information. Managers also indicate difficulty in staffing their SDUs due to variable workloads." [9]

The above finding indicates that the implementation of SDUs may have indeed had an impact on UDC in some states, however the impact most likely has been greatly reduced as the states have worked out any bugs in their SDU operations.

The second OIG report, OEI 06-00-00041, addresses some ongoing problems related to timely processing of child support payments:

> "… States continue to struggle with quickly processing a relatively small, but troublesome, number of payments … SDUs continue to have trouble processing poorly labeled payments, and must devote special attention to payers who make payments on multiple cases. Additionally, some payments from other States and Federal employers are troublesome because of poor labeling or because they are not properly directed to the SDU."[10]

[9] OEI 06-00-00040, page ii.
[10] OEI 06-00-00041, page iii

Data obtained by PSI in its study of UDC in the Big 8+1 states appears to corroborate some of the findings of the OIG. When the Big 8+1 states were asked what priority they would place on various UDC technical assistance strategies, more states identified as their top priority a technical assistance (TA) strategy of "developing a method to identify interstate payments that were initially unidentified."[11]

While unidentified payments make up a portion of every state's UDC balance, some states have found that they need to find a better way to categorize the various types of UDC payments to both determine why payments remain undistributed, and to provide management with a tool to assess progress made on reducing UDC balances.

One child support program did just that. The Third Judicial Circuit Court of Michigan was awarded a federal grant to conduct a research and demonstration project to improve the identification of UDC. The Court conducted a comprehensive review of its current UDC categories and concluded that "to efficiently and effectively identify receipts, there must be well-defined categories to apply funds" and "[n]ot having clearly defined categories and priorities will result in the accumulation of funds in the wrong account, which ultimately results in the delay of disbursement."[12] The Court found that its existing categories were inadequate and recommended that the categories be expanded.

The expansion of UDC categories may help in managing and/or reducing existing UDC balances, however it is important to note that the *number* of categories maintained by a state does not necessarily correlate with lower, or higher, UDC rates. In our interviews with the states, we were able to obtain information about how each state had, or in some cases, had not, categorized their existing UDC balances. See Appendix E: State UDC Categorization Schemes (page E-1) for a description of various states' categorization schemes.

To determine if the number of UDC categories maintained by a state correlated with a state's UDC rates, we constructed a scatter graph containing each state's number

[11] PSI Report on Subtask 2.2 of Task Order 19: *Summary of Major Concerns, Basic Needs, and Best Practices of the Big 8+1 States Related to Reducing Undistributed Collections*, page 7.
[12] *Third Judicial Circuit Court of Michigan's May 2001 Final Project Report and Findings in its Analysis of Undistributed Child Support Collections*, page 17.

of UDC categories and each state's corresponding UDC rate for 2nd quarter FFY01 (see Appendix F, page F-1). While it appears that those states with the fewest number of UDC categories (10 or less) tend to have lower UDC rates (less than 10%), there are just about as many states with a low number of UDC categories that are reporting UDC rates greater than 10%.

This information about how states categorize UDC does not, however, provide a complete picture. Due to the varying methods of categorizing UDC amongst the states, and due to the discrepancy in the figures reported by the states as UDC, the relationship between categorization and UDC rates may warrant further investigation.

Findings

1. Undistributed Collections are increasing over time

Based on data obtained from OCSE-34A reports, we can say that UDC balances are increasing over time. Regardless of the definitions used by the states, reported UDC amounts increased in 39 states from FFY00 to FFY01.[13]

2. The definition of Undistributed Collections contained in the instructions to the OCSE-34A is not being uniformly applied by the states.

Our interviews with the states revealed that, in many instances, states are not including some items in their calculation of UDC. For example, in some states, collections that have been distributed to a case, but not yet disbursed, are not counted in the states' calculation of UDC.

3. Due to varying UDC definitions, data from OCSE-34A reports cannot be relied upon to obtain an accurate picture of the magnitude of Undistributed Collections nationwide.

While we can say with some certainty that UDC balances are increasing, it is impossible to know exactly how much they are increasing, due to the differing definitions employed by the states. To make meaningful comparisons between the states regarding their success in reducing UDC, the states need to be reporting the same items nationwide.

4. The implementation of State Disbursement Units may have initially contributed to a rise in undistributed payments, but most of these issues have resolved after the initial start-up period was completed.

Fifty-eight percent of States that implemented SDUs since 1997 showed an increase in their UDC rates in the three quarters following implementation. Our interviews with the states indicate, however, that any problems that may have arisen during SDU implementation have been resolved by now. The most recent UDC information obtained from OCSE-34A reports for 2nd quarter FFY01 indicate that UDC

[13] See Summary detail of 2nd Quarter FY01 data contained in Appendix G.

amounts continue to increase from pre-SDU levels. Therefore, factors other than the implementation of SDUs must be contributing to the rise of UDC in the states.

5. Systems development projects associated with PRWORA requirements have made it difficult for states to find resources to address UDC issues.

The systems development projects required by PRWORA, and the deadlines associated with these projects, have made it difficult for states to provide the resources necessary to reconcile and/or reduce increasing UDC balances. Personnel and systems programming resources are necessary to do the difficult work of cleaning up older UDC records and those resources have been limited or unavailable due to the more pressing requirements of PRWORA.

6. Strategies for reducing the incidence of unidentified payments are of particular interest to large states.

The Big 8 + 1 states have expressed an interest in receiving technical assistance to assist them in working with unidentified interstate payments. These types of payments include both payments from federal employers and payments from other states that are not accompanied by sufficient identifying information. While the Big 8 +1 did not indicate that unidentified payments were the largest source[14] of UDC, technical assistance from OCSE would be helpful for this subset of payments, since resolution of the problem would involve coordination with other states and with federal agencies.

7. States that do not have a meaningful way of categorizing UDC payments may find it difficult to manage and/or reduce their existing UDC balances.

The states use a great variety of ways to categorize UDC balances. There doesn't appear to be a model categorization method that exists, and the number of categories chosen by the state does not correlate with higher or lower UDC rates. In fact, the categorization of UDC will not prove to be a useful management tool unless the state *intentionally organizes*[15] its existing and ongoing UDC balances. Based on our

[14] In PSI's report *Summary of Major Concerns, Basic Needs, and Best Practices of the Big 8+1 States Related to Reducing Undistributed Collections* for Task Order 19, those states that categorized their UDC reported that unidentified payments comprised only 4% or less of the states' UDC balances.
[15] Credit must go to Diane Fray, IV-D Director of the Connecticut child support program, for this phrase.

interviews with the states, the best strategy for reducing UDC includes a thoughtful categorization scheme coupled with an ongoing management focus, emphasizing automated remedies, whenever possible.

Recommendations

Defining, Reporting, and Categorizing Undistributed Collections

The key component in assessing the magnitude of UDC nationwide is the OCSE-34A report. Based on our discussions with the states we recommend the following enhancements to the OCSE-34A report and its instructions:

- ✓ **Clearly define what should be contained in the States' Gross UDC figure and provide specific examples of items that should and should not be included.**

States are currently including very different sets of data when reporting what has been "distributed" on the OCSE-34A report. The instructions to the OCSE-34A report should explain that the states should *not* be reporting as distributed those payments that have been distributed to a case but not disbursed (e.g., returned checks, IRS holds, future support, etc.). Alternatively, the instructions should clearly indicate that only those payments that have been disbursed *and are considered stale-dated according to state standards* should be included in the state's adjustment on line 7c of the OCSE-34A report (at least one State is currently reporting as undistributed all payments that are uncashed).

- ✓ **Consider removing the requirement that states include IRS offset payments on hold in their calculation of UDC for the OCSE-34A report or, as an alternative, allow states to report these amounts separately.**

Many states are currently holding IRS offset payments for which a joint income tax return has been filed. Under federal law, the states may hold these payments for up to six months before disbursing the child support to the family. "IRS Holds" comprise the majority of reported UDC in most states that hold these payments. The payments are not held for any other reason than the fact that they are associated with a joint tax return and, in most cases, are automatically released for disbursement by the state system when the six-month mark is reached. If states are holding IRS offset payments, those payments should either be factored out of the gross UDC reported, or identified separately within the OCSE-34A report.

- ✓ **Provide states with a small number of simple, manageable UDC categories within which to organize and report their gross UDC balances.**

The number and complexity of UDC categories varies greatly from state to state. The way in which the categories are organized should be tailored to how each state's automated system works, and how the state's child support payment processing is structured.

For the purposes of helping OCSE to monitor UDC at the national level, however, there should exist a small number of broadly defined categories into which the states should organize their UDC when reporting these balances on the OCSE-34A report. An example of a set of broad categories might be:

1. Unidentified Payments
2. IRS Holds
3. Future Holds
4. Undeliverable/Stale-dated Payments
5. Payments put on Hold by Automated System
6. Manually-Placed Holds

✓ **Consider removing the requirement that states report any amounts being held for future support.**

A large number of state systems are programmed to hold future support until an obligation comes due to which the support may be applied. Since employers may send in collections at the end of the month for obligations due at the beginning of the subsequent month, states often find that they have a large UDC balance at the end of the month that is significantly reduced when the future support rolls out at the beginning of the following month. This feature in some state systems causes these states to report an inflated UDC at the time the data for the OCSE-34A is compiled.

Other state systems are capable of disbursing future payments to the family immediately and crediting the payment to future support. Thus, the OCSE-34A reports submitted by these states do *not* contain future support within the universe of UDC reported.

To illustrate the discrepancy between end-of-month UDC balances and post-rollover UDC balances, Washington State provided the following example:

Date	Future Support	Other UDC	Total
4/2/01	$2,099,275.43 60.73 %	$1,357,732.22 39.27 %	$3,457,007.65 100.00 %
4/3/01	$ 273,136.99 18.28 %	$1,220,905.41 81.72 %	$1,494,042.40 100.00 %

As shown above, Washington experienced an 87% reduction in its future support UDC immediately following the rollover of future support into current month obligations. On Washington State's OCSE-34A report for 2nd quarter FFY01, they arguably "over-reported" their UDC balance by $1.8 million.

We recommend that, where possible, states be allowed to include collections held for disbursement for the immediately succeeding month for the purposes of reporting "distributed collections" on the OCSE-34A report. However, some states may not be able to factor out these collections, depending on how their state system is configured. Therefore, in the alternative, we recommend that OCSE-34A reports contain data from the *beginning* of a fiscal year quarter, as opposed to the end of the quarter.

Management-Related Recommendations

- ✓ **Focus top management attention on the assessment, management and monitoring of UDC-related issues.**

- ✓ **Work in partnership with federal regional staff to set UDC goals and monitor progress made in UDC reduction and management.**

A number of the states we interviewed have focused a large portion of management attention to UDC issues. We found that these states tended to be making the most progress in reducing UDC balances and/or maintaining low UDC balances.

In these states, top management made the reduction and maintenance of UDC a top priority. To emphasize this priority, regional goals for UDC were set and detailed management reports were used to monitor progress made in reducing and/or maintaining

UDC (see Best Practice highlights below, page 27). Additionally, management held frequent, regular meetings to assess new or ongoing issues that were identified as UDC levels were monitored.

In addition to state management attention, it is recommended that federal regional offices work in concert with the states to set UDC goals and monitor results. Regional office attention to UDC-related issues will help OCSE more quickly assess common UDC problems experienced across the states, and offer federal assistance whenever possible at the early stages of a problem.

Systems-Related Recommendations

We recommend that states invest in the following systems technology and remedies to keep UDC to a minimum:

- ✓ **Utilize imaging technology for payment processing, and work towards a process in which payments are processed from the image, rather than from the payment document itself.**
- ✓ **Program the statewide system to begin auto-locate activity for a CP whenever the address for the CP is coded "old" or "invalid" and when the system shows a payment on hold for the CP.**
- ✓ **Utilize scannable coupons and/or billing statements with payors and employers remitting payments.**
- ✓ **Market and utilize EFT/EDI and direct deposit whenever possible.**
- ✓ **Implement a categorization scheme in the statewide system, if not already in place.**
- ✓ **Automate the release of UDC payments wherever possible.**

Staffing-Related Recommendations

The bottom-line recommendation for reducing large UDC balances, whether by way of systems modifications, in-depth analysis, and/or the development of a categorization scheme, is this:

- ✓ **Devote staff to reducing and preventing UDC accumulation.**

During our interviews with the states it became apparent that those states that had been most successful in reducing their UDC balance, and/or maintaining a low UDC balance, were those states that invested in human resources to work on and monitor the problem.

While many, if not most, states are currently experiencing a shortage in available staff resources, it cannot be emphasized enough that the complexity of UDC-related issues demands an infusion of human resources to study and resolve the problem(s). This has been very difficult for states to achieve, given the demands imposed upon the states as a result of the passage of PRWORA.

To reduce the time and staff impact on states, we recommend that states look to the processes used by other states to analyze and reduce their UDC balances (see Best Practice highlights below, page 27). Using the framework established by other states may help to reduce the time expended in developing a project plan.

Best Practice Recommendations

While interviewing states, we identified best practices in high-performing states that may be transferable to other jurisdictions. Below is a summary of those best practices (also see Appendix H, page H-1, for more detailed Best Practice descriptions):

State	Description of Best Practice
Colorado	Undistributed Collections Management Reports – state uses a series of management reports to monitor county progress in reducing and maintaining UDC balances.
Connecticut	Application Problem Report – state developed an "Application Problem Report" that lists undistributed payments and the reasons why the payments are not distributed. This report is generated daily to identify application problems.
Idaho	Electronic Payment System for Child Support Disbursements – state implemented an electronic payment system to allow the state to disburse child support payments to an electronic account. The system has virtually eliminated any problem with bad addresses for CPs since no check is mailed to the CP.

State	Description of Best Practice
Maine	Comprehensive Study and Reconciliation of UDC – state conducted a comprehensive study and reconciliation of the state's UDC balance. The study revealed 20 pieces of information that needed correction on the statewide system. Once these corrections were made on the system, the state's UDC balance was reduced.
Washington	Online Suspense – state replaced a paper suspense report with an online report. The suspense information is sorted by office, then within each office, by work team, and then by responsible worker. Case workers can remove payments in suspense by correcting case information or by completing an online adjustment voucher.
Washington	Payment Imaging – state developed an imaging solution that eliminates internal control and timely deposit issues. All payments are imaged upon receipt. The payment instruments are then deposited, allowing payment processing staff to use the digital images to complete payment processing.